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Credit in a Nation of Savers: The Growth of Consumer Borrowing in Japan

Andrew Gordon

Japan has been famous for its high rates of savings for some time. In the past decade, the image of young Japanese in particular as profligate consumers, including young women condemned as “selfish” (*wagamama*) for their greed, has begun to spread as a counterweight.¹ I would resist such a moralistic judgment of either women or men, but I certainly agree that widespread enthusiasm for getting and spending—and the use of credit to support this—has been significant in Japan, not only recently, but for quite some time. Purchase of daily life goods on credit has roots in indigenous practices reaching back to the Tokugawa era. Since the early twentieth century, forms of credit associated with the modern West, most particularly America, have been culturally and economically important. And consumer credit played an important role in Japan’s economic surge from the 1950s.

This role continues. Indeed, since the late 1980s, Japanese consumers on the whole (with some recent diminution) have borrowed in similar proportions to their American counterparts. As reported by the Japan Credit Association (JCA), drawing on government data from each country, outstanding per capita consumer debt in Japan surpassed American totals in 1989 when measured as a percentage of net disposable income. It remained greater for the next decade, standing between 20 to 25 percent compared to U.S. totals under or at 20 percent. The balance shifted in the past decade, as American debt relative to income rose to around 25 percent most years, and Japanese levels fell to 20 percent or less (Figure 1). If the parallel boom in home equity loans in the United States is taken into account, the recent borrowing gap is greater than

this. For my purposes, however, the key point is that the overall debt levels are in a comparable ballpark. Neither nation's consumers, by these measures, are vastly more debt-ridden than the other. The notion of people in Japan as particularly averse to spending because they are obsessed with frugality and saving simply does not hold.² [Figure 3.1 and accompanying caption and source information located approximately here]

My goal in this chapter is not to settle the matter of the gold, silver, or bronze medal winners in a consumer debt Olympics, and, in any case, the data are categorized in ways in each country that makes precise comparison a treacherous matter. Rather, starting with the understanding that Japanese consumers borrow comparably to others relative to their income, I seek to describe and explain the historical generation of a structure of consumer borrowing in Japan that is distinctive in important ways in comparison to the U.S. and European cases. I will sketch the rise of consumer credit in Japan, focusing on a combination of indigenous and imported practices and goods across the twentieth century, and on the political and economic context of this borrowing. I argue that an early reliance on installment plans evolved into a pattern of credit card use marked to this day by a commitment to repayment through fixed installments as well as extremely high rates of monthly clearance. Of greatest interest, and most unusual, are two elements of the story: these practices have been shaped by a nearly accidental program of regulation—the regulation of credit, that is, for political reasons not linked directly to support for or opposition to borrowing itself; and they have endured through the present, long after the key regulations were lifted.

As historians are fond of noting, money-lending is one of the world's oldest professions.³ In Japan, one finds literary reference to pawned clothing from at least the Heian era (900s).⁴

Accounts of the origins of modern consumer credit typically point to diverse indigenous and foreign practices that emerged more or less simultaneously around the turn of the twentieth century. What principally defines them as modern is that borrowers were required to make regular installment payments linked to the new practice of monthly salaries or weekly wages for office or factory workers.

The most important indigenous installment sellers have been described with retrospective patriotic pride by some postwar commentators as a purely native source of modern consumer finance, more important than foreign sellers. But although both indigenous and imported credit practices were significant, it appears to me that, in the eyes of most commentators of the interwar era, credit was understood as something most essentially “modern” and “Western,” even if the actual origins were mixed.

Indigenous providers of consumer credit in modern times emerged out of the lacquer industry, which had developed in the late Tokugawa era in central and southwestern Japan. Lacquerware in late Tokugawa times was sold to rural households on credit, improvising upon a traditional form of mutual credit provision called *mujin* or *kō*.⁵ From the 1880s into the 1890s, the more successful sellers built regional networks and began to offer a range of goods, especially furniture and clothing, on monthly installments. Apprentice merchants split off from their masters, but retained the signature trademark of a kanji character in a circle (*maru*): Marui, Maruzen, Marukyo, Marutake, Maruichi, and so forth. These businesses evolved into “installment department stores” (*geppu hyakkaten*) from the late 1890s, selling household goods such as furniture, bedding, tatami, clothing, lacquerware, or ceramic ware. Customers included workers at the state-run Yahata iron works in Kyushu and seem to have generally been wage earners of limited means. The first such seller opened in Tokyo only in 1915, and a number of

others immediately followed.⁶ These businesses appear similar in customer base and products to the so-called “borax stores” that spread in the United States from the 1880s or the German *Abzahlungshäuser* of the late nineteenth-century.⁷

Foreign corporations provided the second source of modern installment credit. National Cash Register, the Tokyo office of the London *Times* in tandem with Maruzen booksellers selling the *Encyclopedia Britannica*, and the Singer Sewing Machine Company were among the most important. Of these, Singer was by far the leader in systematizing and spreading the practice of installment buying to a different sort of consumer than those who patronized installment department stores. Singer’s clientele were middle- to upper-class urban families, wives and daughters in particular. In contrast to the native installment sellers, Singer and the other foreign sellers used more detailed contracts (some smaller clothing stores used no written contracts at all), terms of repayment were considerably longer, and the cost of a typical good was higher.

A Singer machine, in fact, represented about two months’ wages for an ordinary “salaryman” (this ratio held roughly constant from 1900 through the 1950s), making a purchase “on time” the only way for many to afford it. The company first offered machines on an installment plan in Japan in 1907. By 1918, Singer was importing 50,000 machines per year, a level it maintained with some fluctuation through the 1920s. Roughly 60 to 80 percent were sold on an installment plan.⁸

As elsewhere, installment selling was central to Singer’s drive to create a new household market in Japan. The ease of the “modern” practice of installment purchase was a major selling point, but the company also framed its appeal in terms of progress for the individual and the nation. An early Singer leaflet from 1908 proclaimed, “Japan is the country of progress,” and

offered installment and cash prices for no less than nineteen different household models. A leaflet from about 1912 echoed the theme of installment credit as a progressive and modern “lifelong investment.”⁹

Sellers and buyers were self-conscious in their view that they were engaged in a new, progressive, modern practice of American or British origin, something Japanese people should be proud to be doing. One marvelous early example of this consciousness is an article in the Jiji Newspaper in 1902 that proudly announced that the Maruzen bookstore (no relation to the Maruzen installment department store) was selling the *Encyclopedia Britannica* for a five-yen down payment and 10-yen monthly installments over a one- to three-year period, price depending on choice of binding:

as this installment sales method is used especially in countries where individual credit is advanced, the fact that the Times corporation is using this method in Japan proves that it views Japanese and British people as equal and is giving us sufficient trust. Therefore, if anyone somehow breaks the contract, this will wound the reputation of Japan and betray the hopes of the foreigners.¹⁰

The first organization in Japan to survey this emerging world of consumer credit in systematic fashion was the Tokyo Chamber of Commerce. Its pioneering 1929 study introduced readers to credit in the United States and Britain and then examined the practices of Japanese retailers. It drew on state-of-the-art analyses, such as E. R. Seligman’s important and just-published opus, *The Economics of Installment Selling* (1927), for the account of the American scene.¹¹

The report noted that installment selling had been limited to a small number of products until the mid-1920s, when it expanded dramatically.¹² The “relatively organized present-day

practice, which can be called installment sales,” started with Singer. At about the same time, improvised practices of traditional credit emerged for household goods such as furniture, ceramic ware, lacquerware, and clothing (especially men’s Western dress). Another new entrant was Nihon Gakki (Yamaha), selling pianos and organs from 1924. In addition to a scattering of other household appliances sold on credit, suburban homes were sold on several-year mortgages along the newly opened commuter railway lines as harbingers of the “modern, cultural” life.

The Chamber of Commerce thus explicitly divided consumer credit into two streams from about 1900 through the 1920s: the imported American practice and a modernized form of traditional credit practices centered on clothing, furniture, and dining ware. Other prewar surveys echoed these empirical judgments and this way of categorizing the phenomenon, but it was the American source of the imported practice that drew most attention. An academic article from 1933 based on a survey of 254 installment sellers in Osaka and Tokyo claimed the salaried urban life “was perfected” in the mid-1920s, a “cultured life” centered on “so-called ‘American goods’” such as sewing machines and pianos. The author presented a supply-driven rationale for the sudden spread of payment plans: the largest number of installment sellers needed to find new customers because their output had increased due to greater manufacturing efficiency.¹³ By 1934, according to another survey conducted by the city of Tokyo, roughly 10,000 of 130,000 retailers in greater Tokyo offered their goods on time. The survey estimated that 8 percent of all the city’s retail sales were made through installment plans, which was said to be a remarkably high number for a relatively new practice.¹⁴

It is also remarkable that none of these surveys made any effort to measure delinquency, default, or repossession; nor did they discuss such problems in any detail. I have found only one source from this era that mentioned at any length what one surely would expect to have been a

major concern. A best-selling book whose title might roughly translate as “Installment Selling for Dummies” was first published in 1930. In a chapter on installment selling of pianos, the author reported that only 7 to 8 percent of payments were made late, but that 15 to 20 percent of all pianos sold on time were repossessed before payments were completed.¹⁵ These two data points do not mesh well. I suspect that some “purchasers” understood themselves to be renters, and simply stopped payments and returned the good without necessarily falling behind on payments, for example when a child lost interest in her or his lessons. In any case, neither this author nor other commentators saw delinquency or default as huge problems.

Overall, I am struck by the positive tone—and the calm view of problematic aspects—presented by this first generation to interpret the credit boom. Matsunami’s guidebook for novices to installment selling grandly proclaimed that credit selling would “democratize mass access to commodities, spread human happiness more equally, and relieve troubling class struggles.” The “unpropertied intellectual class” could, for example, afford a 100-yen phonograph on installment but not for cash. The practice thus “elevates the level of daily life.” Also, installment purchase brought economic security to households by leading families to budget their expenses.¹⁶

Perhaps most noteworthy in its prescient and global perspective was the Tokyo Chamber of Commerce in 1929. The preface to its report stated:

To recover from the long recession . . . along with urging the rationalization of management, the rationalization of daily life has come to be stressed in recent days. . . . [It] is necessary to reform the consumer economy, increase the efficiency of consumption, eliminate waste, lower the expense of daily life, and thus rationalize daily life. . . . The skillful operation of this [installment credit]

system can make a major contribution to rationalization of both management and daily life. From the perspective of the consumer, installment purchases allow one to buy goods of considerable cost, which is far more economical [in the long run] than purchase of inexpensive shoddy goods with cash. . . . [This] allows one to level out expenditures over time. It is not only extremely useful in order to lead a disciplined life, planning a monthly budget of expenses; it also raises standards of living by allowing purchase of goods otherwise too expensive.”¹⁷

Most striking in this passage is the appreciation of installment credit as a form of social discipline. Even Seligman’s classic 1927 defense of consumer credit was arguably less explicit than these Tokyo authors (who read Seligman carefully) in stressing the centrality of the disciplining function of installment credit.¹⁸ As the Chamber of Commerce authors recognized that the most vigorous and widespread installment credit system in the world was indeed that of the Americans, they found it strange that in the land of the most developed market for installment purchase, one seemed to find more opposition than support.¹⁹ One thus finds in Japan an intriguing intertwining of “catch-up” and simultaneity. On one hand, American-style installment selling was imported to late-developing Japan about several decades after it took off in the United States. Yet, by the late 1920s, Japanese observers were fully abreast of global trends, and were indeed precocious in their insight into the significance of the expanding practice at home and abroad.

Not all commentary on consumer credit was positive, to be sure. Even the “how to” promoter Matsunami asserted that installment credit could make buying too easy and overextend a consumer beyond his or her ability to pay.²⁰ The Tokyo Chamber of Commerce admitted that in Japan, as everywhere, the early days of installment selling had seen abuse in the selling of

poor quality goods at high prices and fraud in the sale of securities, so that installment selling came to have a poor reputation among the “ordinary masses.” Many, it said, had come to see purchasing this way as shameful, or to see selling this way as below the dignity of high-class operations such as the major department stores. But the report ended on an upbeat note, pointing to progress in recent years in sellers offering good products on fair terms, and in middle-class families purchasing goods on time, including everything from radios, phonographs, and cameras to clothes, watches, jewelry, sewing machines, and even autos.²¹

In these and other popular assessments, in some contrast to the picture one takes away from Lendol Calder’s account of the American scene, the scorn or sense of problem was directed not so much at the moral hazard to buyers, who might fall into hopeless debt or hedonistic abandon, as it was directed at the shadiness of sellers and the shoddiness of their products. Of course, the two perspectives cannot be neatly separated; a corrupt seller could snare an unsuspecting buyer in dangerous debt. Nonetheless, there seemed to have been some difference in the weight of criticism.

Consumer credit took on a new class and nationalistic dimension in the 1930s with the advent of a so-called “Japanese-style” and “populist” practice in installment sales, especially for sewing machines. By the late 1920s, a number of entrepreneurs, machinists, and disgruntled Singer salesmen had founded a handful of domestic sewing machine makers. The most successful was the Pine Company. Its first president, Ose Yosaku, believed Singer had alienated potential buyers and developed a reputation as arrogant because of stringent credit requirements and a tendency to avoid lower-income buyers. Ose set his sights on what he called the “plebian (*shomin*) class” with a modified installment plan that fit “the Japanese situation.”

As Ose told the tale, he was inspired by the “smiling savings plan” offered by the Japan Real Estate Savings Bank, a popular small-loan plan for small businesses since 1916, whereby a saver made installment deposits to his savings account up to an agreed target. At this point he qualified for a loan, to be repaid in monthly installments. This was a successful way to offer partially secured loans to small borrowers, as the borrower had already demonstrated the discipline to save on a regular basis.²² In similar fashion, Ose offered customers who could not afford a down payment the chance to “reserve” their machines by paying in five yen a month for six months *before* taking possession. By that time, Pine had its down payment in hand, and the customer had the choice of paying cash in full, converting the remaining obligation to a series of ordinary installment payments, including interest, or continuing the layaway without taking the machine until fully paid. In the last case, the customer would be offered a discount against the cash price, in effect earning “interest” on the money deposited with Pine over the course of two years. Pine (later named Janome) touted the plan as especially suited to a family with young daughters. The parents could start paying at birth. When their youngster was ready to learn to sew, they would own the machine.

In the words of Shimada Taku, a key architect of Pine/Janome’s marketing strategy, the company was cultivating “the bottom of the social pyramid,” the “ordinary masses” such as “the wife in a back-alley tenement who carries her baby half-asleep on her back to go shopping.” This creative financing strategy offered the maker a cash-flow advantage, for the prepayments essentially financed the subsequent installment credit. Prepaid orders allowed the company to calibrate production schedules to future demand. And a customer sufficiently disciplined to make regular prepayments—in essence a saver not a spender—was likely to be able to continue to meet the installment obligations. But marketing rhetoric of “Japanese-style credit”

notwithstanding, this was not a unique practice. Ford Motor Company, in 1923, had offered a poorly received layaway program that required customers to prepay the entire cost of the car. Chevrolet responded with a “6 percent purchase plan,” which anticipated Janome’s effort precisely.²³ It is not clear whether Pine executives were aware of this precedent.

In the late 1930s, the Japanese economy shifted to a war footing. Under such propaganda slogans as “luxury is the enemy,” the state mounted vigorous savings campaigns, even prohibited women’s permanents, and forced textile manufacturers to produce airplane parts. In the face of these stringent policies, the consumer economy—credit included—contracted and then virtually vanished between 1942 and 1945. But before this happened, the basic outlines of Japanese credit practice were in place. Most borrowing took place through installment credit, and a broad spectrum from the working through the middle class used such credit for purchase of the fruits of modern industrial civilization. The practice generated some anxiety, but on balance the contemporaneous assessments in the press and among official observers were positive or accepting.

After the war, almost as soon as the production of consumer goods resumed, consumer credit returned as well, both in the form of installment plans and, soon thereafter, in a creative new form that anticipated the credit card by some decades. Sewing machine producers were at the forefront of the revival of both consumer industries and installment sales. Singer was not able to re-enter Japanese markets until the 1950s, and never regained its primacy, but the domestic producers built on both Singer’s and their own prewar foundations. Industry publications mentioned installments prominently for the first time in late 1948; such credit was in great demand by individual families and schools. By 1950, sewing machine producers—together with

makers of autos, bicycles, motorbikes, refrigerators, washing machines, and farm machines—echoed the prewar Chamber of Commerce as they spoke of installment sales as the key to “healthy” and “rational” growth.²⁴

By the end of the 1950s, purchasing “on time” had become the method of choice for consumers seeking a wide range of “cultural” goods that defined the bright new consumer life of postwar and peacetime.²⁵ One 1959 survey enumerated the proportion of goods bought on monthly payments as follows: bicycles, 80 percent; televisions, 75 percent; automobiles, 70 percent; motorbikes, 68 percent; refrigerators, 66 percent; sewing machines, 60 percent; washing machines, 59 percent. According to a 1960–61 MITI survey of 6,200 retail sellers who offered a broader spectrum of goods that included clothing, from one half to two thirds of all sales at these stores were made on installment.²⁶

In these same years, an important new form of consumer credit also came on the scene—a harbinger of the credit card called “ticket” or “coupon” sales. The ticket industry offered a form of credit midway between a small loan to be used at the consumer’s discretion and an installment loan tied to the purchase of a particular good. As with a credit card company, the ticket company contracted on one hand with its member retail stores and on the other hand with consumers. The latter were given books of yen-denominated tickets to use in lieu of cash at member stores. Tickets denominated at 500 and 1000 yen were typically sold in books of 10,000 or 20,000 yen. The installment payment obligations, ranging from three to twelve months, would commence at the moment a ticket was used to make a purchase. Ticket companies charged interest as part of the monthly installments at annualized rates of 1 to 9 percent, depending on the number of payments. They charged member stores from 5 to 10 percent of the value of the purchased goods.²⁷

The retailers were divided into two distinct, competing sectors. On the one hand were the small neighborhood stores clustered in numerous shopping districts in all major cities. Most ticket companies were likewise small-scale, serving a limited number of local retail centers. Opposed to these small retailers were their arch-rivals, the department stores. The willingness of the latter to offer credit of any type, as well as to join hands with a handful of the largest ticket companies, were new postwar departures. With the exception of the slightly déclassé “installment department stores,” the mainline emporiums such as Mitsukoshi had made cash-only selling a point of pride since the turn of the century.

Neighborhood stores and department stores alike jumped on the credit bandwagon in a small way in 1949 and 1950. Each retail segment presented its tactic as a defensive response to the other.²⁸ But the company that sparked the full-scale takeoff and the political contention in this industry was Nihon Shinpan (literally, Japan Credit Sales), to this day the largest consumer finance company. It was founded in July 1951 in partnership with the Tokyo outlets of four venerable department stores: Takashimaya, Matsuya, Shirokiya, and Keihin. The great majority of ticket associations linked to small-retailers were founded in the following two years.

The practice spread rapidly. Three months after Nihon Shinpan began operations, the *Nihon mishin taimusu* (Japan Sewing Machine Times) reported that local merchants had started offering ticket sales in reaction to department stores doing likewise. The paper added a cautionary note that customers might buy useless goods with such credit (rather, one assumes, than sewing machines).²⁹ In March 1952, the *Asahi Shinbun* headlined the contest of “Department Stores and Retailers Competing over Installments.” It noted a surge of small-retail centered ticket groups and reported as well that Nihon Shinpan boasted 26,000 customer-members.³⁰

This sort of ticket financing was not unique. It was in most respects quite similar to the popular systems of “check trading” in the United Kingdom, pioneered by the Provident Clothing and Supply Co. Ltd. in the late nineteenth century (discussed in detail in the following chapter), and the “Königsberg system” introduced in that German city in 1926 by the Kundenkredit GmbH. Consumers in these systems would purchase checks on credit from Provident in the United Kingdom or from an installment bank in Germany, redeem these at participating local retailers, and repay the check company with interest over time.³¹ These European programs were directed primarily at the working class and charged fairly high interest in view of the uncertainty of their customers’ ability to repay the loans, whereas the Japanese ticket companies included a significant portion of middle-class and white-collar men and women among their customers. In addition and related to this difference, the most creative aspect of Japan’s ticket industry, which I have not seen elsewhere, was the practice of contracting *collectively* with credit customers through workplaces or through community groups such as neighborhood associations. Not until the late 1950s did any ticket company offer its product directly to individual consumers. Instead, a ticket company would reach agreement with a government office or a private firm to offer tickets to its employees, or it would arrange with a neighborhood association to offer tickets to its members. A company’s welfare or general affairs section would issue the ticket books to employees and collect the subsequent payments via payroll deduction. Nihon Shinpan, for example, would collect the used tickets from the department stores on the fifteenth of each month. Shinpan staff stayed up all night to sort the tickets, write up invoices for each individual buyer, and deliver the tickets and invoices to the workplace (or neighborhood association office) the next day. At the company, tickets and invoices were stuffed into pay envelopes, deductions were taken on payday, and the proceeds were remitted to Nihon Shinpan. In most cases in the

1950s, companies did not charge the ticket vendors for their considerable effort in collecting and forwarding proceeds.³²

This was a win-win situation for the credit companies and the customers. At a time when a credit-check industry scarcely existed, major finance companies were able to use employers to guarantee their loans and handle their paperwork (in the 1960s, Nihon Shinpan reported a loss ratio of just 0.1 percent of total credit volume).³³ Customers received relatively low-cost credit, usually less than a 10-percent annual rate, for use in purchasing a wide range of goods in local retail shops or department stores. This form of credit grew steadily through the 1950s, reaching a total of 6.6 billion yen (\$18 million) in Tokyo in 1959. The six major finance companies that dealt mainly with department stores were growing at a particularly dramatic rate, up 93 percent in sales volume over the previous year.³⁴ As the 1960s began, well over half the consumer durables transforming daily life and driving economic growth were bought on time. The ticket companies offered a portion of this credit. Roughly fifteen years before the takeoff of bank cards in the United States (the parents of today's MasterCard and Visa) a creative system of credit tickets appeared to be evolving toward the credit card as we know it today. Observers, including state officials, worried some about inflation, default, and the socially erosive impact of "consumptive credit," but they recognized the benefits for industry of allowing credit to masses of customers. As in the interwar era, some understood the monthly payment as a form of social discipline rather than an invitation to excess and unsustainable debt.

Then, in 1959, against this background of support and modest concern, Japan's Ministry of International Trade and Industry (MITI) issued an administrative order to restrict the ability of the major "ticket" finance companies and department stores to offer consumer credit. This

obscure order was arguably the most consequential decision in the history of Japan's postwar consumer credit.

This episode illustrates nicely the complicated contingencies of turning points in history, since the direct impetus for the order was a political struggle between large and small retailers stimulated only tangentially by worry about excess credit. The lines of political battle set local and national federations of small retailers and their allied ticket sellers against department stores and a handful of major ticket companies collectively known as the *shinpan*. The aggressive growth of the largest such finance company, Nihon Shinpan, was the proximate cause of the struggle. In 1956, it had expanded beyond its Tokyo-Yokohama base by opening Nagoya and Osaka branches. Federations of small-scale retailers as well as 200 ticket companies nationwide with 10,000 member stores launched a fierce lobbying campaign against this move. They heckled the Nihon Shinpan president as “Godzilla” when he visited Osaka. They complained that many members were on the verge of collapse. They wanted the government to limit the type and value of goods that department stores could offer on credit. They wanted to restrict the *shinpan* from issuing tickets that were valid nationwide. Nihon Shinpan and the department stores countered that the minimum purchase of 2,000 yen per item proposed in 1959 was too high: only 40 percent of their ticket sales exceeded that. A bit contradictorily, the large department stores also argued that the problem was exaggerated, since only 3 percent of their sales were through tickets. The practical struggle came to focus on what sort of regulation would be acceptable, and to whom. Nihon Shinpan said it would go bankrupt if tickets purchases were limited to a floor of 1,000 yen per item. The National Federation of Consumer Groups supported this position, claiming tickets were important to allow ordinary consumers to use department stores. But the consumer group did not oppose credit limits in principle. It could live with the prohibition of

ticket purchases for less than 100 or 200 yen. And it agreed that ticket credit for purchase of perishables led to reckless spending and should be prohibited.³⁵

After a year of intensive lobbying, the small stores won the battle. In October 1959, MITI sent 106 department stores and nineteen shinpan companies an “Order Concerning Self-Restraint by Department Stores.” The ruling prohibited stores and credit companies from selling or financing installment goods priced below 500 yen per item nationwide, with a stricter floor of 1,000 yen in the six major cities. It prohibited department-store installment sales of any services, food, drink, plants, or pets. And it outlawed the use of tickets outside the prefecture of issue.³⁶ Quite simply, the small retailers had been granted a monopoly on installment credit for low-priced goods, and nationally or regionally portable consumer credit had been ruled illegal. An intense battle between large department stores and small retailers had been raging in Japan since the 1920s in other arenas, as well.³⁷ It had now spilled over to restrain the spread of consumer credit.

Three years later, an Installment Sales Law—also drafted by the MITI—took effect. It reinforced these administrative constraints. To further protect small businesses, the law stipulated that “if it is judged that a department store or manufacturer will cause great harm to the business of small-scale installment sellers, the relevant ministry can refuse to allow the former [to sell on installment].” And to prevent irresponsible use of “consumptive credit,” the law mandated that the government, by administrative order, would designate a list of specified goods that could legally be sold on installment credit. The initial list of approved goods was issued in December 1961. It was quite extensive, allowing credit purchase of items such as toys and cosmetics, which were hardly in the class of “consumer durables.” But it prohibited the

category of “consumptive” credit—food, drink, and tobacco—and ruled out credit for all services.³⁸

A set of regulatory restraints was now in place. The 1959 order remained in force until 1992. Over these thirty-two years, the regulations reinforced customary practice and ideology to install an enduring system of consumer credit. This combination of regulation and habit accounts for key features of Japanese consumer credit as it expanded in volume from the 1960s onward. First, single-purchase transactions—one credit contract for the purchase of one item—dominated consumer credit into the 1980s. Most were so-called “installment” contracts and some (purchases made with just one or two payments) were defined as “non-installment” credit. Even through the mid-1990s, the combined total of these two categories was only slightly lower than total credit card volume (Figure 2). To this day (data through 2007), these two categories are roughly the same as the volume of credit card purchases paid in installments or revolving fashion. Through 1992, regulations virtually guaranteed that the proportion of consumer credit provided through cards remained low. Only the finance companies (*shinpan*) were allowed to offer revolving or installment credit via cards (usually on installments). They replaced credit ticket books with credit cards in the mid-1960s (subject to the same regulations). Banks until 1992 were allowed to enter the consumer credit market only with convenience “credit cards” that had to be cleared monthly by automatic deduction from a linked savings account. What is fascinating is that these behaviors, which were shaped by what is now a defunct regulatory system, have persisted to the present. [Figure 3.1 and accompanying caption and source information located approximately here]

In broad outlines, the story unfolded as follows. In the wake of the MITI order of 1959, Nihon Shinpan closed its Osaka and Nagoya offices, set up a separate corporation to develop its

business in Kansai, and saw total credit volume in 1960 fall to 1957–58 levels.³⁹ When one considers how quickly the economy was growing in these years, this was a dramatic setback.⁴⁰ But in 1963, Nihon Shinpan and other finance companies devised a clever tool to circumvent the 1959 order: so-called “shopping credit.” On a purchase-by-purchase basis, any customer (not necessarily a pre-enrolled shinpan customer) who entered a member store anywhere in Japan could apply for credit from Nihon Shinpan and pay for that good on installments. Since there were no tickets or cards involved, the MITI’s 1959 order was not applicable; neither the regional restriction nor the price floor applied, and the ministry did not move to halt or regulate the practice. Although not as convenient as pre-approved tickets or credit cards, this innovation sufficed to spark a second wave of growth for the company and its competitors. In sum, the 1959 order and the installment credit law channeled the expansion of consumer credit toward two practices: limited short-term (one- or two-payment) credit, often linked to salary bonuses, or single-good installment purchases.

At the same time, regulation guided the newly emerging bank cards down the path of least resistance: the “convenience” type of monthly cleared credit. All bank cards had to be linked to a savings account, from which payments were deducted in full each month. Although the MITI had no legal basis for its action, since the Finance Ministry regulated banks, it nonetheless refused to allow banks to offer coupon, ticket, or shopping credit and enter the long-term installment business dominated by the shinpan. Short-term monthly-cleared credit, on the other hand, fell outside the scope of the 1959 order and 1962 law, and the MITI made no claim against banks that offered it. For its part, the Ministry of Finance maintained that longer-term card-based consumer credit—whether revolving or installment—amounted to unacceptable unsecured loans. As a result, from around 1970, when such bank credit cards began to spread

widely, regulators and credit providers institutionalized and made customary the practice of monthly-cleared credit cards. Card users came to see this as so “natural” that today most continue to use cards for convenience, not credit, even though the requirement to do so has long since vanished. The “1959 ordinance” was revoked in 1992 as part of a compromise form of deregulation involving the MITI, Ministry of Finance, shinpan, and major banks. The banks were allowed to issue revolving or installment credit via cards. In exchange for surrendering their monopoly on this instrument, the shinpan won access to the bank ATM network. Since 1992, both banks and shinpan have been free to issue consumer credit via cards in three forms: monthly cleared credit; installment credit (typically ten payments); or revolving credit, whereby the consumer can decide the amount of the monthly repayment against an outstanding balance. The customer specifies which type of credit she or he wants at the point of purchase (rather than at the moment of payment, as in the United States). What is intriguing is that even fifteen or more years after the 1959 restrictions were lifted, the vast majority of consumers—indeed an increasing majority in the 2000s—have chosen, or simply accept as the “natural” default practice, the monthly clearing of outstanding balances. According to a survey of 1,455 credit card users in 2001, 71 percent reported making full payments monthly, 12 percent chose to make installment payments, 4 percent made payments linked to semi-annual bonuses, and just 4 percent opted for payment on a revolving basis.⁴¹ In 2007, 76 percent of credit card purchases were made with the obligation to clear monthly. This total included cash advances charged to credit cards and contracted for repayment in the next month’s billing cycle. Of the 24 percent of credit card borrowing undertaken on an installment or revolving basis, about two-thirds took the form of cash advances.⁴² This preponderance of “convenience” over “loan” users contrasts sharply to the

American case; no more than 45 percent of consumers clear their balances monthly at present (2008 data).⁴³

In sum, a large proportion of Japanese credit historically took the form of the installment purchase of durable consumer goods. This practice of one-off installment buying has decreased in the past two decades in both relative and absolute terms. In its place, one might say, what has increased dramatically has been credit card “borrowing,” with the term placed in scare quotes to highlight the fact that most of this debt is repaid within the month; almost all of the remainder, as with the purchase of individual goods in times past, is repaid through fixed installments. Only a miniscule portion of borrowing has taken the form of card-based revolving credit. This historical outcome is an interesting social practice that is arguably worth praising as well as explaining.

Borrowers in Japan may have taken on consumer debts at or close to American levels in the past two decades; but their forms of borrowing make them less likely to overextend themselves. Not only is their borrowing usually paid off monthly; in addition, credit cards—whoever the issuer might be—are typically tied to bank savings accounts from which payments are deducted. And Japanese borrowers have not been offered easy access to the sort of home equity loans that have proliferated so destructively in the United States in recent years. Perhaps for these reasons, it appears that the moral condemnation of consumer borrowing in Japan has been aimed less at foolish borrowers than at those unscrupulous or predatory lenders who provide black- or grey-market loans at high interest to consumers unable to access the relatively secure forms of credit under discussion here.

The Japanese practices detailed in this essay may well be closer to European than American ones. It is noteworthy that the institution of ticket finance, so important in Japan’s postwar history of consumer credit, does not appear in the American story but is found both in

the United Kingdom and on the European continent. Rosa-Maria Gelpi and François Julien-Labruyère argue that, beginning with Britain, credit in the late nineteenth and early twentieth century in Europe “aimed at cultured and well-to-do clientele who borrowed to improve their standard of living.” This lending was structured as hire purchase (installment) agreements with “practically no risk for lender or borrower.”⁴⁴ And as was the case in Japan, European practices of lending appear to have been more closely regulated than those of the United States well into the late twentieth century.⁴⁵ On the other hand, the specific focus of regulation in Japan—aimed to protect small retailers as much as to curb credit per se—does not appear elsewhere.

These distinctive and persistent practices cannot be explained solely with reference to culture and custom, on the one hand, or politics and regulation, on the other. Culture is embedded in politics. One cannot explain a practice such as consumer credit in a zero-sum fashion in which either culture or regulation must be designated the independent causal factor. The regulations of the 1950s were shaped to some extent by anxieties and expectations concerning healthy and risky consumer behavior and economic development, but even more by the political power of small retail sellers. These regulations in turn shaped or reinforced consumer attitudes about which choices seemed obvious or natural. Consumer behavior was changing even in advance of deregulation: installment use of credit cards spiked up from the late 1980s. And even as regulations changed to allow other options, certain basic patterns such as the use of monthly-cleared credit continued to be “natural” choices for many Japanese. Habit emerged as the hybrid product of crosscutting pressures.

¹ See Peggy Orenstein in *New York Times Sunday Magazine* July 1, 2001.

² The JCA data excludes home mortgages and home equity loans for consumers in both countries. Charles Horioka in his contribution to this volume shows that Japanese mortgage borrowing has

been extraordinarily high in comparative terms among G7 nations relative to income, so inclusion of such data would actually raise the profile of Japanese borrowing relative to income or relative to other countries. Conversely, however, if one considers home equity loans as credit card borrowing in disguise, which it arguably has been in recent years in the United States, the recent levels of American consumer debt, excluding mortgages, outpace those in Japan by a more significant margin. I am indebted to Sheldon Garon for pointing this out to me.

³ Rosa-Maria Gelpi and François Julien-Labruyère, *The History of Consumer Credit: Doctrines and Practices*, trans. Mn Liam Gavin (New York, 1999), starts her story with the Code of Hammurabi in 1792 B.C.E.

⁴ The *Kojien* dictionary (electronic version in Seiko Denshi Jisho) glosses “pawnshop” (shichi) with a literary reference from Taketori Monogatari (tenth century C.E.), considered Japan’s oldest work of narrative fiction.

⁵ See *Geppu Kenkyu*, series 4/1957–5/1958. Mujin or kō were revolving mutual credit funds, also described by Embree in Suyemura in the 1930s, where members met monthly, usually for a meal and drinks, and each contributed an agreed sum. The total was given to the winner of a lottery. Subsequent lotteries were limited to those who had not yet won. Community or peer pressure among people well known to each other served to insure against default. In the Ehime lacquer innovation, all members of a group received their goods upon an initial pooled payment, and periodic subsequent payments were collected from the entire group. Tetsuo Najita, *Ordinary Economies in Japan* (Berkeley, 2009), 175–209, offers an important recent discussion.

⁶ Tokyo Chamber of Commerce, 1929, 212–13

⁷ Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton, 1999), 56–57.

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- ⁸ Janome kabushiki kaisha, “*Janome mishin sôgyô 50 nen shi* (1971) and Kuwahara Tetsuya, “Shoki takokuseki kigyô no tainichi toshi to minzoku kigyô,” *Kokumin keizai zasshi* 185, no. 5 (February 2002): 50.
- ⁹ Singer sales leaflets, dated “Autumn1908,” and undated, approximately 1912, held in collection of Edo-Tokyo Museum.
- ¹⁰ Cited by Fukushima Hachiro, in *Gekkan Kurejitto*, No. 200 (1973), 20.
- ¹¹ On Seligman, see Calder, *Financing the American Dream*, 237–48.
- ¹² Tokyo Shôkôkaigishô, *Geppu hanbai seido* (1929), 227.
- ¹³ Hirai Yasutaro “Honpô ni okeru bunkatsu barai seido no genjô ni oite,” *Kokumin keizai zasshi* 43, no. 2 (1933): 69–73, 81.
- ¹⁴ Tokyoshi yakusho, kôgyôkyoku, shôgyôka, *Wappu hanbai ni kan suru chôsa* (March 1935).
- ¹⁵ Matsunami Tadayuki, *Sugu ni yakudatsu geppu hanbai* (Banrikaku shobo, 1930), pp. 193-200.
- ¹⁶ Ibid., pp. 160, 148 in that order, for these two quotes.
- ¹⁷ Tokyo Chamber of Commerce, 1929, pp. 1-2.
- ¹⁸ Calder, *Financing the American Dream*, 29-33.
- ¹⁹ Tokyo Chamber of Commerce, 1929, pp. 181-188.
- ²⁰ Matsunami, 1930, pp. 149-150.
- ²¹ Tokyo Chamber of Commerce, p. 227.
- ²² *Janome mishin sôgyô 50 nen shi*, 194-200.
- ²³ Calder, *Financing the American Dream*, 195-199.
- ²⁴ NMT 112, 21 August 1950, 1.
- ²⁵ NMT 249, 21 August 1953, 7.

²⁶ Nihon mishin sangyô kyôkai, *Nihon mishin sangyô shi* (1961), 9. Tsūsanshō (MITI) ed.

Wappu hanbai jittai chōsa (1962), 9. The MITI survey was limited to stores offering at least some goods on installment, so exaggerates the proportional totals.

²⁷ A useful description of the ticket business is offered by Takagi Kunio, “Chiketto hanbai no keitai,” in *Jurisuto* 382 (15 October 1967):68-69.

²⁸ See *Tokyo asahi shinbun*, “Ginza Ticket Incident,” 10 April 1950, 2.

²⁹ NMT 54, 21 October 1951, part 2 of series on installment selling.

³⁰ *Tokyo asahi shinbun*, 18 March 1952, 2.

³¹ Sean O’Connell and Chris Reid, “Working-class consumer credit in the UK, 1925-1960: the role of the check trader,” *Economic History Review*, lvii, 2 (2005) 378-405. Jan Logemann and Uwe Spiekermann, “The Myth of a Bygone Cash Economy: Consumer Lending in Germany from the Nineteenth Century to the Mid-Twentieth Century.” Paper of The German Historical Institute, Washington DC. pp. 18-19. {date?}

³² Nihon shinpan, “The bunka: Nihon shinpan no 50 nen shi,” 1 and Takagi, “Chiketto hanbai no keitai,” 68-69.

³³ Takagi, “Chiketto hanbai no keitai,” 69.

³⁴ Tokyo shōkōkaigishō, “Tokyo ni okeru wappu hanbai no genjō to mondai” (June 1960): 37.

³⁵ Nihon shinpan, “The bunka: Nihon shinpan no 50 nen shi”, 3, and *Tokyo asahi shinbun*, “Arguments over Department Store Installment,” 4 November 1958, 4.

³⁶ *Tokyo asahi shinbun*, 31 October 1959, 1; 24 October 1959, 4.

³⁷ See Sheldon Garon and Mike Mochizuki, “Negotiating Social Contracts,” in Andrew Gordon, ed., *Postwar Japan as History* (Berkeley: University of California Press, 1993), 148-155.

³⁸ Full text of the law and of all Diet deliberations on the bill can be found at the National Diet Library's website. The text of the law with discussion and detailed interpretation of each provision, plus the full list of specified goods, can be found in Shinada Seihei, *Wappu hanbai no hôritsu, kaikei, zeimu* (Tokyo: Dayamondosha, 1961), 63-218.

³⁹ Footsteps, *Nihon shinpan 35 nen no ayumi* (1961), 135-136.

⁴⁰ The spinning out of the Osaka and Nagoya operations as separate companies may account for part of the drop.

⁴¹ Nihon kurejitto sangyô kyôkai, 2001 *Kurejitto ni kansuru shôhisha chôsa* (Tokyo: Nihon kurejitto sangyô kyôkai, 2001), 245.

⁴² Nihon kurejitto kyôkai, *Nihon no shôhisha shinyô tōkei*, (Tokyo, 2009) pp. 31-32 for data through 2007.

⁴³ ComScore, September 2008, accessed January 13, 2010 at <http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php#paymenttrends>. A figure of 39 percent clearing monthly is reported for 2004 on <http://www.cardratings.com/creditcardstatistics.html>

⁴⁴ Gelpi, *The History of Consumer Credit* p. 129.

⁴⁵ Gelpi, *The History of Consumer Credit* pp. 129-146.